



Medicare
Payment Advisory
Commission

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Contact: Mark E. Miller
(202) 220-3700

MEDICARE PAYMENT ADVISORY COMMISSION
RELEASES REPORT ON MEDICARE PAYMENT POLICY

Washington, DC, March 1, 2006—Today, the Medicare Payment Advisory Commission (MedPAC) releases its March 2006 *Report to the Congress: Medicare Payment Policy*.

The report focuses on improving Medicare payment accuracy and calibrating payment adequacy to the efficient provider. The Commission also reiterates its proposals to measure resource use and improve quality, to attain better value for the Medicare program. The report discusses the context for Medicare payment policy noting that the trend of higher health care spending, combined with the retirement of the baby boomers and Medicare's new prescription drug benefit, will, if unchecked, result in the Medicare program absorbing unprecedented shares of the GDP and of federal spending.

Policymakers need to take steps now to slow growth in Medicare spending and encourage greater efficiency from health care providers. Medicare relies on providers and health plans that care for the entire population, not just Medicare beneficiaries, and thus broad trends in the health care system affect the environment in which the program operates. Medicare can and should take the lead in initiating changes to the health care system. But to encourage more thorough improvements in quality and efficiency, Medicare should work in collaboration with other payers.

MedPAC makes updates and policy recommendations for eight Medicare payment systems for 2007. Our June 2005 Report to the Congress made payment and other recommendations for the Medicare Advantage program. The update is the amount by which the base payment for all providers in a prospective payment system is changed. The update recommendations also incorporate MedPAC's expectation for improvement in productivity (0.9 percent for 2007). This factor links payment changes in Medicare to the productivity gains achieved by the firms and workers who pay taxes that fund Medicare. Market competition constantly demands improved productivity and reduced costs; as a prudent purchaser, Medicare should also require productivity gains each year. MedPAC recommends:

- For the hospital inpatient and outpatient prospective payment systems, increases in the base payment equal to a market basket index (representing input price changes) minus 0.45 percent (half of MedPAC's expectation for productivity improvement in the general economy). These updates balance concerns about declining margins with stable indicators for access and quality, the surge in hospital construction, and the need to relate payments to the costs of efficient providers. The report suggests that negative aggregate Medicare margins in the industry may be driven in part by unnecessarily high costs and uncompetitive hospitals. MedPAC recommends combining these

updates with a quality incentive payment policy for hospitals and the improvements to the inpatient DRG refinements it recommended last year.

- For the physician fee schedule, an increase equal to the increase in input prices less the expectation for productivity growth of 0.9 percent. Beneficiaries' access to physicians is similar to that of those with private insurance and has been stable. Current law calls for substantial negative updates from 2007 to 2011, under the sustainable growth rate formula. The Commission does not support these sustained fee cuts because over the long run they could threaten beneficiary access to physician services.
- For the four post-acute care payment systems—skilled nursing facilities (SNFs), home health agencies, long-term care hospitals and inpatient rehabilitation facilities—no increases in the payment rates. Considering current margins, increased spending and volume, stable access and quality, and good access to capital, these providers can accommodate next year's cost increases without an increase in base payments. MedPAC again recommends that CMS improve SNF quality measures and that the Secretary modify the SNF PPS to more accurately capture the cost of providing care to different types of patients. It also finds that all four of these payment systems face similar issues: payments are not well calibrated to costs, services overlap among settings, the post-acute care product is not well defined, and assessment instruments differ among settings. These issues make it difficult to get better value for Medicare spending across the spectrum of post-acute care.
- For the outpatient dialysis payment system, an increase equal to a market basket index minus half of the expectation for productivity improvement. To improve equity in payments between provider types, MedPAC also reiterates its recommendation that the Congress eliminate payment differences between freestanding and hospital-based facilities for composite rate services and combine the composite rate and the add-on payment.

In addition, because the current system does a poor job of identifying services paid too high relative to others, the report recommends improvements to the process for determining relative rates paid for services in the physician payment system. Inaccurate rates distort the market for physician services, and the Commission is concerned they may affect the supply of physicians over the long term. MedPAC recommends that the Secretary establish a standing panel of experts to help CMS identify overvalued physician services and to review recommendations from the AMA's Relative Value Scale Update Committee, and that the Congress and the Secretary ensure that this panel has the resources it needs to independently collect data and develop evidence. In consultation with this expert panel, the Secretary should initiate reviews for services that have experienced substantial changes in the time and effort required to do them and identify new services likely to become easier to do over time. Finally, to ensure the validity of the physician fee schedule, the Secretary should review all services periodically.

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The Medicare Payment Advisory Commission is an independent Congressional advisory body charged with providing policy analysis and advice concerning the Medicare program and other aspects of the health care system. Its 17 commissioners represent diverse points of view and include health care providers; payers; beneficiary representatives; employers; and individuals with expertise in biomedical, health services, and health economics research.